

Press Release

Shivam Agroprocess Private Limited

July 16, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.28.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BB+** (read as ACUITE BB plus) on the Rs.28.00 crore bank facilities of Shivam Agroprocess Private Limited (SAPL). The outlook is '**Stable**'.

Incorporated in the year 2007, SAPL is a Palanpur, Gujarat based company. The directors of the company are Mr.Shivrambhai I Patel, Mr.Maheshbhai S Patel, Mr.Amrutbhai I Patel and Mr.Jigarbhai Patel. The company is engaged in the business of crushing of castor seeds and manufacturing of castor oil and castor de-oiled cakes. The manufacturing plant is located in Palanpur, Gujarat with an installed production capacity of 12tons/hour.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of SAPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SAPL is promoted by Mr.Shivrambhai I Patel, Mr.Maheshbhai S Patel, Mr.Amrutbhai I Patel and Mr.Jigarbhai Patel. The promoters of the company have been engaged in the business line for around four decades. The extensive experience of the promoters has helped in establishing healthy relationships with its customers and suppliers. The key customers of the company include names like Royal Castor Products, Adani Wilmar, Gokul Agri International, Biokhimtrade LLC, amongst others with no major concentration in revenues. The key suppliers include names like Patel Ishwarbhai Parsottam Das & Co., Ravechi Trading, etc to name a few. Since, the company is located in Palanpur, which is one of the largest castor-growing places in Gujarat and accounts for ~75 percent of India's castor seed production, SAPL gets an additional benefit of procuring the raw material easily and ensuring lower logistic cost. On the back of the stable and repeated orders by the key customers, the revenues have seen a growth of 3.82 percent in FY2020 (Prov.) over FY2019. The revenue of the company stands at Rs.256.19crore in FY2020 (Prov.) as against Rs.246.77crore in FY2019.

Acuité believes that the company will benefit from the experience of the management and the manufacturing location will be an added advantage for the company as Palanpur, Gujarat ranks highest in terms of area, production and productivity of castor seeds which will help the company to get the benefit in terms of savings on logistic cost for its castor seed procurement.

- **Moderate Financial Risk Profile**

SAPL's financial risk profile is moderate, marked by moderate net worth, low gearing and moderate debt protection metrics. SAPL's net worth is moderate and is estimated at around Rs.12.73crore (Prov.) as on March 31, 2020. The net worth levels have seen improvement over the last three years through FY2020 on account of healthy accretion to reserves during the same period. The gearing ratio improved to around 0.90 times (Prov.) as on March 31, 2020 from 2.66 times as on March 31, 2019. The company incurred capex of Rs.1.00crore over the last three years to expand its scale of operation, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs.1.28crore. The company, on the other hand, generated cash accruals of Rs.2.48crore (Prov.) in FY2020. SAPL's cash accruals over the next two years through FY2022 are estimated to remain in the range of Rs.2.69crore to Rs.2.91crore. The gearing, however, is expected to be low at around 0.77 times as on March 31, 2022 on back of absence of any major debt-funded

capex plan.

The revenues of the company increased by around 3.82 percent to Rs.256.19crore (Prov.) during 2019-20, while its' operating margins has declined from 2.19 percent in FY2019 to 1.58 percent (Prov.) in FY2020. The profitability levels coupled with low debt levels has led to moderate debt protection measures. The NCA/TD and interest coverage ratio for FY2020 were moderate at 0.22 times (Prov.) and 2.44 times (Prov.), respectively.

- **Efficient working capital management**

SAPL's working capital is efficiently managed as is reflected by its Gross Current Asset (GCA) days of around 35 days (Prov.) as on March 31, 2020. The company maintains an inventory of around 16 days (Prov.) in FY2020 as against 44 days in FY2019. SAPL extends a credit period of around 14 days (Prov.) in FY2020 to its customer. As a result, the reliance on working capital limit is low, leading to low utilization of its bank line at an average of ~55.86 percent over the last 14 months through May 2020, while its peak utilization was high at around 94.27 percent during the same period. Acuité expects the working capital management to remain efficient over the medium term.

Weaknesses

- **Low profitability margins**

SAPL has exhibited low and fluctuating operating profitability (in the range of ~1.50 to 2.80 per cent) over the past three years. The margins are subdued on account of commoditized and low-value addition inherent in the activity. Further, SAPL deals in agro commodities, the prices of which are highly volatile and depend upon various factors like the monsoon, acreage under cultivation, government regulations, etc. as a result the margins are exposed to fluctuations in raw material prices.

Acuité believes that the operating margins will be influenced by the ability of the company to introduce high-value products.

- **Competitive and fragmented industry**

The company operates in a highly competitive and fragmented industry and faces tough competition from various established brands in the edible oil industry as well as several unorganized players, which can have an impact on the bargaining powers with the customers and hence the margins.

Liquidity Position: Healthy

The company has healthy liquidity marked by healthy net cash accruals to no maturing debt obligations. The company generated cash accruals of Rs.2.48crore (Prov.) in FY2020 as against no maturing debt obligations during the same period. The cash accrual of the company is estimated to remain around Rs.2.69crore to Rs.2.91crore during 2021-22 against no repayment obligations during the same period. The company's working capital operation is efficient, marked by the Gross Current Asset (GCA) days of 35 days (Prov.) for FY2020. The average bank limit utilization stood at 55.86 per cent for fourteen months ended May, 2020. The company maintains unencumbered cash and bank balances of Rs.0.03crore (Prov.) as on 31 March 2020. The current ratio stands at 1.56 times (Prov.) as on 31 March 2020. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy net cash accruals to no debt repayments over the medium term.

Rating Sensitivities

- Improvement in the profitability thereby improving the overall financial risk profile
- Stretch in working capital cycle leading to deterioration in liquidity

Outlook: Stable

Acuité believes that SAPL will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative', if the company generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins thereby impacting its business risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	256.19	246.77
PAT	Rs. Cr.	1.93	0.96
PAT Margin	(%)	0.75	0.39
Total Debt/Tangible Net Worth	Times	0.90	2.66
PBDIT/Interest	Times	2.44	1.53

Status of non-cooperation with previous CRA (if applicable)

ICRA, vide its press release dated March 27, 2020 has denoted the rating of Shivam Agroprocess Private Limited as 'ICRA BB-/Stable/ICRA A4; ISSUER NOT-COOPERATING; Withdrawn' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE BB+ / Stable

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About Acuité Ratings & Research:

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